MAPLE LEAF MILLS LIMITED

Annual Report to Shareholders, December 31, 1972

Annual Report
for the year ended December 31, 1972

Maple Leaf Mills Limited

Directors

R. G. Dale
H. B. Dunbar
J. D. Leitch
J. L. Lewtas
F. H. Logan
G. M. MacLachlan
J. A. McCleery
B. A. Norris
L. J. Risi Jr.
J. H. Taylor
R. W. Wadds
M. D. Weiner

Officers

President and Chief Executive Officer
R. G. Dale

Senior Vice-Presidents

P. W. Strickland	Operations
J. A. Telfer	Finance and Corporate Development

Vice-Presidents

G. F. Allan	Flour
A. W. Archibald	Corporate
H. W. Blakely	Grocery Products
P. W. Couse	Agriculture
S. A. Miller	Personnel
W. G. Milliken	Vegetable Oil
C. L. Turner	Grain

Financial

D. D. Brown	Controller
R. E. Lennox	Assistant Secretary-Treasurer
J. J. Wigle	Secretary-Treasurer

Head Office

417 Queen's Quay West
Toronto, Ontario M5V 1A2

Transfer Agent and Registrar

Crown Trust Company
Toronto and Montreal

Financial Highlights

	1972	1971
	(000's omitted)	
Net sales	$198,801	$202,154
Earnings before extraordinary items	3,150	1,737
Net earnings	3,777	2,566
Cash flow	6,392	5,107
Property additions	2,549	3,910
Dividends	1,375	1,379
Working capital	22,289	20,782
Common shareholders' equity	47,424	44,978
Per common share		
Earnings before extraordinary items	$ 1.90	$ 1.02
Net earnings	2.30	1.54
Common dividends	.80	.80
Shareholders' equity	29.58	28.06

President's Letter

To the Shareholders:

Results for the fiscal year ended December 31st, 1972 show consolidated earnings per common share, before extraordinary items of $1.90 compared with $1.02 in 1971. Net earnings per common share after extraordinary items were $2.30 compared with $1.54 for the previous year.

Consolidated revenue was less than in 1971 mainly as a result of the disposal of the packet seed business and a lower level of sales in the bakeries and in certain areas of our Agricultural business.

The Agricultural economy in Canada strengthened during the year and the more stable conditions which existed helped the earnings of the Agricultural Division return to more normal levels. The feed, hatchery, growing, processing and retail branch operations performed extremely well, but field and forage seed results suffered from a lack of export volume due to poor yields of certain crops.

The Flour Division showed encouraging improvement in spite of the extremely competitive conditions that exist. The Russian flour contract was renewed and the general level of exports to other foreign markets was maintained despite the loss of some volume in the United Kingdom as a result of Britain's entry into the European Common Market.

Grain operations had another good year with generally satisfactory earnings being reported from the elevator and grain merchandising segments of the business. The results of the St. Clair Grain and Feeds operation in South-Western Ontario were adversely affected by particularly poor weather conditions which seriously delayed the harvesting of the corn and soybean crops. Poor crop conditions in Russia and in certain other major grain producing countries during the year coupled with a significant reduction in the Peruvian herring catch, created an unprecedented demand for grain and protein throughout the world and drove prices for some commodities to the highest level on record. The extremely volatile grain market which resulted, while creating difficulties for some of our operations created opportunities in the Grain and other Divisions and this condition is likely to persist for some months to come.

The Vegetable Oil Division did not do as well as in 1971, as margins throughout the year continually came under heavy pressure. The astronomical rise in the price of soybeans and other oilseeds particularly in the last quarter created problems and reduced earnings. This situation is moderating and the Division is expecting better results in 1973.

The Grocery Products Division increased its sales volume during the year as a result of the introduction of new lines and the contracting of some private label business. Every effort is being made to improve the profitability of this operation but intense competition and rising costs continue to depress margins and keep earnings at an unsatisfactory level.

The operation of the flour mill at Port-au-Prince for the

Haitian Government continues to go well and Maple Leaf personnel engineered and completed a 40% expansion of the mill's capacity during the year. The per capita consumption of flour in Haiti is growing at a rapid rate and our Company is planning to participate in the further expansion of milling capacity that we feel will be required. During the year we became partners with the Government of Trinidad in National Flour Mills Limited, a company which operates the country's only flour mill and we have taken a substantial equity position in addition to a management contract. Our Canadian management team is now in Port of Spain and the mill is operating satisfactorily. We plan to continue to expand our overseas operations and are actively pursuing other opportunities particularly in the Caribbean area.

In general, the results of our baking subsidiaries Corporate Foods Limited and Eastern Bakeries Limited and our affiliate McGavin Toastmaster Limited were disappointing as the baking industry continues to be plagued by rising costs and low margins.

On October 17th, 1972, the Federal Government announced its intention of expropriating certain waterfront lands at Toronto for an urban park. Included in the area covered by their expropriation notice is the Company's entire Queen's Quay complex comprising a feed plant, a vegetable oil processing plant and refinery, an oil tank farm, a large grain elevator and the Head Office building. The planning for the replacement and relocation of these facilities in now underway and the Company expects to receive full compensation for these costs as well as the loss of this valuable property.

We look for a further improvement in earnings for 1973, provided that the Canadian agricultural economy continues to be reasonably stable and that there is some slackening of the serious pressures of inflation throughout the country.

Mr. Robert C. Vincent, a Director of the Company, died suddenly on March 4th, 1973. Mr. Vincent had been a member of the Board since 1970 and his wise counsel and advice will be greatly missed.

Mr. Louis J. Risi Jr., Vice-President of the Norris Grain Company, was appointed to the Board on April 25th, 1973.

During the year a determined effort was made to reduce costs and improve earnings and the co-operation and support of our employees at every level of the Company was very greatly appreciated.

On Behalf of the Board of Directors

ROBERT G. DALE
President and
Chief Executive Officer

May 7th, 1973.

Five year financial summary

	YEAR ENDED DECEMBER 31				YEAR ENDED MARCH 31
	1972	1971	1970	1969	1969
			(000's omitted)		
Operating results					
Net sales	$198,801	$202,154	$201,681	$203,315	$203,966
Earnings before extraordinary items	3,150	1,737	2,225	2,847	3,455
Net earnings	3,777	2,566	2,225	2,552	3,684
Dividends	1,375	1,379	1,378	1,534	1,455
Cash flow	6,392	5,107	5,787	6,248	8,077
Return on sales	1.6%	0.9%	1.1%	1.4%	1.7%
Financial position					
Working capital	$ 22,289	$ 20,782	$ 20,791	$ 21,561	$ 22,561
Total assets	117,191	118,126	122,886	116,839	112,332
Long-term debt	13,716	13,844	14,619	15,174	15,619
Common shareholders' equity	47,424	44,978	43,745	42,897	42,026
Return on equity	8.0%	5.6%	4.9%	5.8%	8.8%
Per common share					
Earnings before extraordinary items	$ 1.90	$ 1.02	$ 1.33	$ 1.71	$ 2.10
Net earnings	2.30	1.54	1.33	1.53	2.24
Dividends	.80	.80	.80	.90	.85
Shareholders' equity	29.58	28.06	27.34	26.82	26.32

Consolidated Statement of Earnings and Retained Earnings

	FOR THE YEAR ENDED DECEMBER 31	
	1972	1971
	(000's omitted)	
Sales and revenues:		
Net sales, operating revenues and commodity trading margins	$198,801	$202,154
Investment and other income	1,954	2,308
	200,755	204,462
Costs and expenses:		
Cost of sales and operating expenses	168,835	172,640
Selling and administrative expenses	18,849	20,495
Depreciation (Note 2)	3,586	3,837
Interest on bankers' advances and notes	1,886	2,434
Interest on long-term debt	982	1,018
Remuneration of directors and senior officers	423	427
Minority interest	94	(76)
	194,655	200,775
Earnings before income taxes and extraordinary items	6,100	3,687
Income taxes (Note 5)	2,950	1,950
Earnings before extraordinary items	3,150	1,737
Extraordinary items (Note 10)	627	829
Net earnings	3,777	2,566
Retained earnings at beginning of year	39,134	37,947
	42,911	40,513
Dividends:		
Preference shares	97	102
Common shares	1,278	1,277
	1,375	1,379
Retained earnings at end of year	$ 41,536	$ 39,134
Earnings per common share:		
Earnings before extraordinary items	$1.90	$1.02
Net earnings	$2.30	$1.54

Consolidated Statement of Source and Application of Funds

	For the year ended December 31 1972	1971
	(000's omitted)	
Source of funds:		
Funds generated from operations	$ 6,392	$ 5,107
Sale of property, plant and equipment	1,413	940
Investments realized	1,294	907
	9,099	6,954
Application of funds:		
Investments	3,016	853
Property, plant and equipment	2,549	3,910
Dividends	1,375	1,379
Long-term debt	471	775
Preference shares	183	—
Other	(2)	46
	7,592	6,963
Increase (decrease) in working capital	$ 1,507	$ (9)
Working capital at end of year	$ 22,289	$ 20,782

Consolidated Balance Sheet

ASSETS	DECEMBER 31 1972	1971
	(000's omitted)	
Current:		
Cash and term deposits	$ 26	$ 3,081
Marketable securities, at cost which approximates market	3,090	3,121
Accounts receivable	29,980	28,937
Deposits with The Canadian Wheat Board	5,227	19,456
Bankers' advances applicable thereto (Note 3)	(5,227)	(19,456)
Inventories—		
Finished products and materials held for production, at the lower of average cost and replacement cost	27,562	26,718
Grains held for resale, at replacement cost	7,151	7,342
Prepaid expenses	868	732
Total current assets	68,677	69,931
Investments:		
Mortgages and other investments, at cost less amounts written off	7,421	6,031
Joint ventures (Note 1)	4,727	3,682
	12,148	9,713
Property, plant and equipment (Note 2)	35,453	37,527
Other:		
Unamortized debenture discount and expenses	295	335
Goodwill and trademarks, at cost less amortization (Note 1)	618	620
	913	955
	$117,191	$118,126

LIABILITIES	DECEMBER 31 1972	1971
	(000's omitted)	
Current:		
Bankers' advances (Note 3)	$ 20,346	$ 26,674
Notes payable	10,635	10,955
Accounts payable and accruals	12,988	10,709
Income and other taxes payable	1,840	312
Dividends payable	366	353
Long-term debt due within one year	213	146
Total current liabilities	46,388	49,149
Long-term debt (Note 4)	13,716	13,844
Deferred income taxes (Note 5)	4,006	4,411
Minority interest in subsidiaries:		
Preference shares (redeemable for $1,549,000)	1,448	1,442
Common shares	2,571	2,442
	4,019	3,884
Shareholders' equity:		
Capital stock (Note 6)	6,910	7,127
Contributed surplus (Note 7)	616	577
Retained earnings	41,536	39,134
	49,062	46,838
	$117,191	$118,126

On behalf of the Board:

R. G. DALE, Director

J. H. TAYLOR, Director

Notes to Consolidated Financial Statements

December 31, 1972

1. Principles of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries as of December 31, with the exception of those of Eastern Bakeries Limited and Hillcrest Farm Limited which are as of October 31.

The excess of cost over book value of net assets of subsidiaries at dates of acquisition has been allocated to property, plant and equipment and to goodwill. Depreciation has been charged against earnings on amounts allocated to depreciable assets. As a general rule goodwill is not amortized but where, in the opinion of management, it has a limited life its cost is amortized over a 10 year period.

The equity method of accounting is used for investments in all joint ventures.

2. Property, plant and equipment

Property, plant and equipment and accumulated depreciation are set out below:

	1972			1971
	(000's omitted)			
	Cost	Accumulated Depreciation	Net	Net
Land and land improvements	$ 2,693	$ 239	$ 2,454	$ 2,649
Buildings	34,639	16,628	18,011	18,807
Equipment	51,774	36,786	14,988	16,071
	$89,106	$53,653	$35,453	$37,527

Depreciation is calculated on the straight-line method. The rates used, as set out below, are estimated to be sufficient to depreciate the cost of the assets to residual value by the expiration of their useful lives:

Buildings	2% to 5% per annum
Machinery & equipment	6⅔% to 10% per annum
Automotive equipment	15% to 33⅓% per annum

3. Bankers' advances

Bankers' advances are secured by assignment of accounts receivable, inventories and wheat held as agent of The Canadian Wheat Board.

4. Long-term debt

Long-term debt, excluding amounts due within one year included in current liabilities, consists of the following:

	1972	1971
	(000's omitted)	
Maple Leaf Mills Limited—		
5¾% sinking fund debentures maturing December 1, 1981	$ 8,996	$ 9,390
Corporate Foods Limited—		
8½% sinking fund debentures, series A due December 15, 1988	4,209	4,314
Other	511	140
	$13,716	$13,844

Annual repayment requirements in the next five years are approximately as follows: 1973—$213,000, 1974—$800,000, 1975 to 1977—$700,000.

5. Deferred income taxes

Deferred income taxes have been reduced by $405,000 ($217,000 in 1971). The 1972 figure includes $184,000 applicable to extraordinary items.

6. Capital stock

Capital stock consists of the following:

	1972	1971
	(000's omitted)	
Preference shares Class A, par value $100 each.		
Authorized 75,000 shares, none issued		
5½% preference shares Class B (cumulative, redeemable at $104 and voting), par value $100 each.		
Authorized and issued 16,385 shares	$ 1,638	$ 1,860
Common shares without par value.		
Authorized 4,000,000 shares, issued 1,603,343 of which 5,390 are held by a subsidiary	5,272	5,267
	$ 6,910	$ 7,127

The letters patent authorizing the 5½% preference shares Class B provide that the company meet annual sinking fund obligations on a basis related to earnings. During the year the company purchased for cancellation 2,217 of these shares in anticipation of such obligations.

There are options outstanding on 32,411 common shares under the employees' stock option plan which become exercisable over a period of years to 1979 at prices ranging from $11.50 to $20.00 per share. During the year 436 common shares were issued under the plan for $5,000.

7. Contributed surplus

The increase in contributed surplus of $39,000 in the year represents the gain on preference shares purchased for cancellation.

8. Contingent liabilities

There are guarantees totalling $1,175,000 under lines of credit to associated companies on which the indebtedness at December 31, 1972 amounted to $1,108,000.

9. Working capital and retained earnings restrictions

Under the trust indenture securing the company's debentures and the letters patent authorizing the 5½% preference shares Class B, there are covenants to maintain working capital and shareholders' equity above stipulated levels. As of December 31 the company's working capital and shareholders' equity substantially exceeded these minimum requirements.

10. Extraordinary items

The extraordinary items consist of the following:

1972—Gain on the sale of two properties no longer required in the business, including an income tax credit of $184,000.

1971—Gain on the sale of the goodwill, trademarks and certain properties of the packet seed business.

11. Expropriation

The Government of Canada has given the company notice of its intention to expropriate the company's Toronto Waterfront property. If the expropriation is carried out the company will receive compensation from the Government of Canada in an amount not less than the fair market value of the property on the date of expropriation which amount is estimated to be substantially in excess of book values. No estimate can presently be made of other financial considerations relating to relocation.

12. Comparative figures

The comparative figures as of December 31, 1971 and the year then ended are based upon financial statements reported on by Peat, Marwick, Mitchell & Co., Chartered Accountants.

Auditors' Report

To the Shareholders of Maple Leaf Mills Limited:

We have examined the consolidated balance sheet of Maple Leaf Mills Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

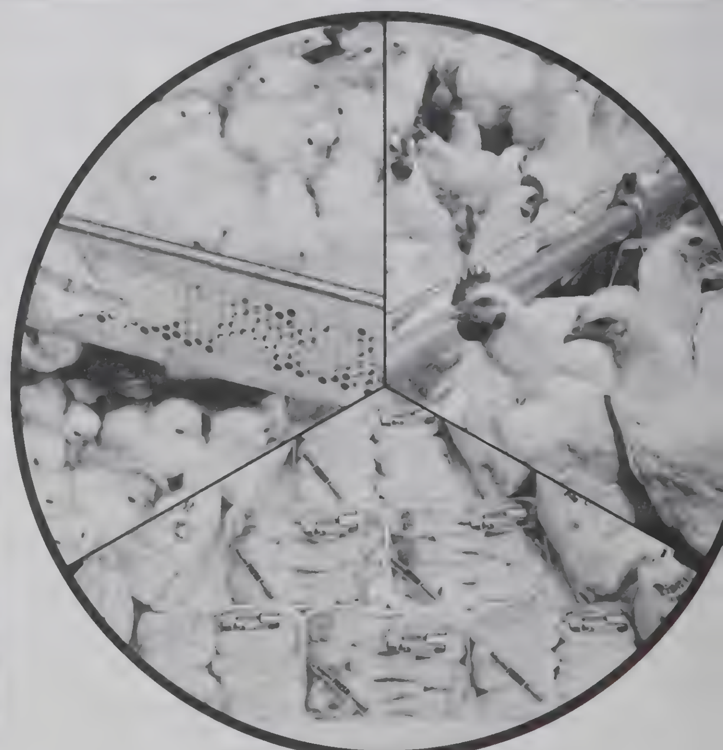
Toronto, Canada,
February 27, 1973.

MASTER FEEDS feeding programs for poultry and livestock are all thoroughly tested at our modern Agricultural Research Centre.

New developments in nutrition and management are well proven before they are passed on to MASTER FEEDS customers who are located all across Canada.

New varieties of plants are developed at our Seed Research Centre to satisfy the specialized needs of our seed customers.

Our Seed Division has exclusive marketing rights to "0217" FYLKING KENTUCKY BLUEGRASS lawnseed. This well-known lawnseed is perhaps better adapted to special landscaping uses than any other Bluegrass available today.



Our Poultry Products Division, PINECREST FOODS, provides high quality poultry meat products for the consumer. Poultry breeding flocks, chick hatching, poultry growing and processing each constitute an important segment of the complex production process in bringing poultry to the marketplace.

GROCERY PRODUCTS DIVISION

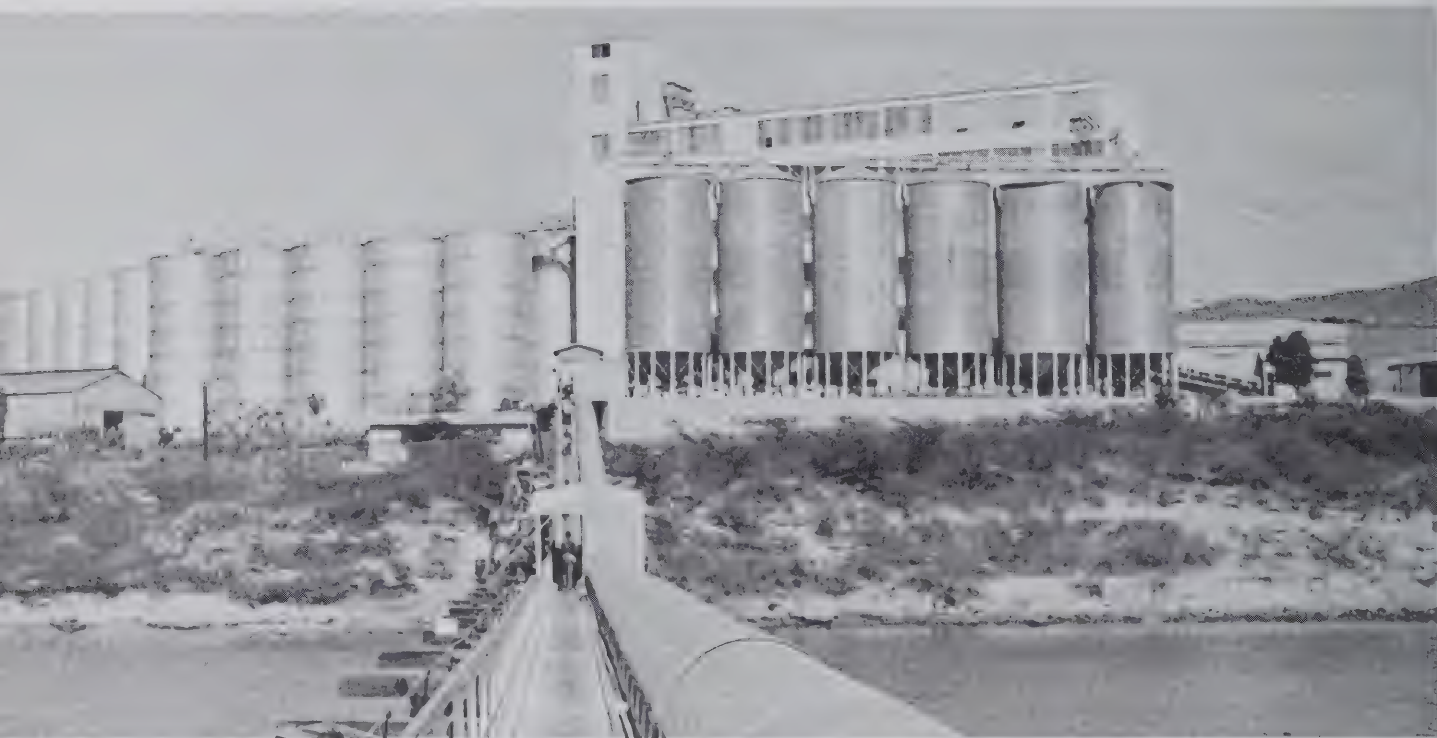
Diversification into New Products and New Markets in 1972

Early in 1972, flavour crystals were added to the Division's product line and marketed under our JOLLY MILLER brand name. Sales in this large, competitive market have greatly exceeded expectations and two new flavours—Tangerine and Pink Lemonade—have been added to the original Orange. Production facilities are being enlarged to meet the demand for this product.

Our popular line of Sponge Pudding Mixes was introduced into New England in August 1972 under the JOLLY MILLER brand name. Sales to date have been most encouraging. Attending reception held in Boston at time of launching into this new market were, left to right, R. G. Dale, President, J. E. McDonald, our New England distributor, H. W. Blakely, Vice-President and J. W. MacDonald, Director of Sales.

Demand for Food Service products continues to grow in the rapidly expanding "away from home" food market. Food Service products are marketed under the JOLLY MILLER brand name.

OVERSEAS OPERATIONS



LA MINOTERIE D'HAITI:

View of La Minoterie d'Haiti taken from offshore grain unloading dock. All wheat used by the mill is Canadian.

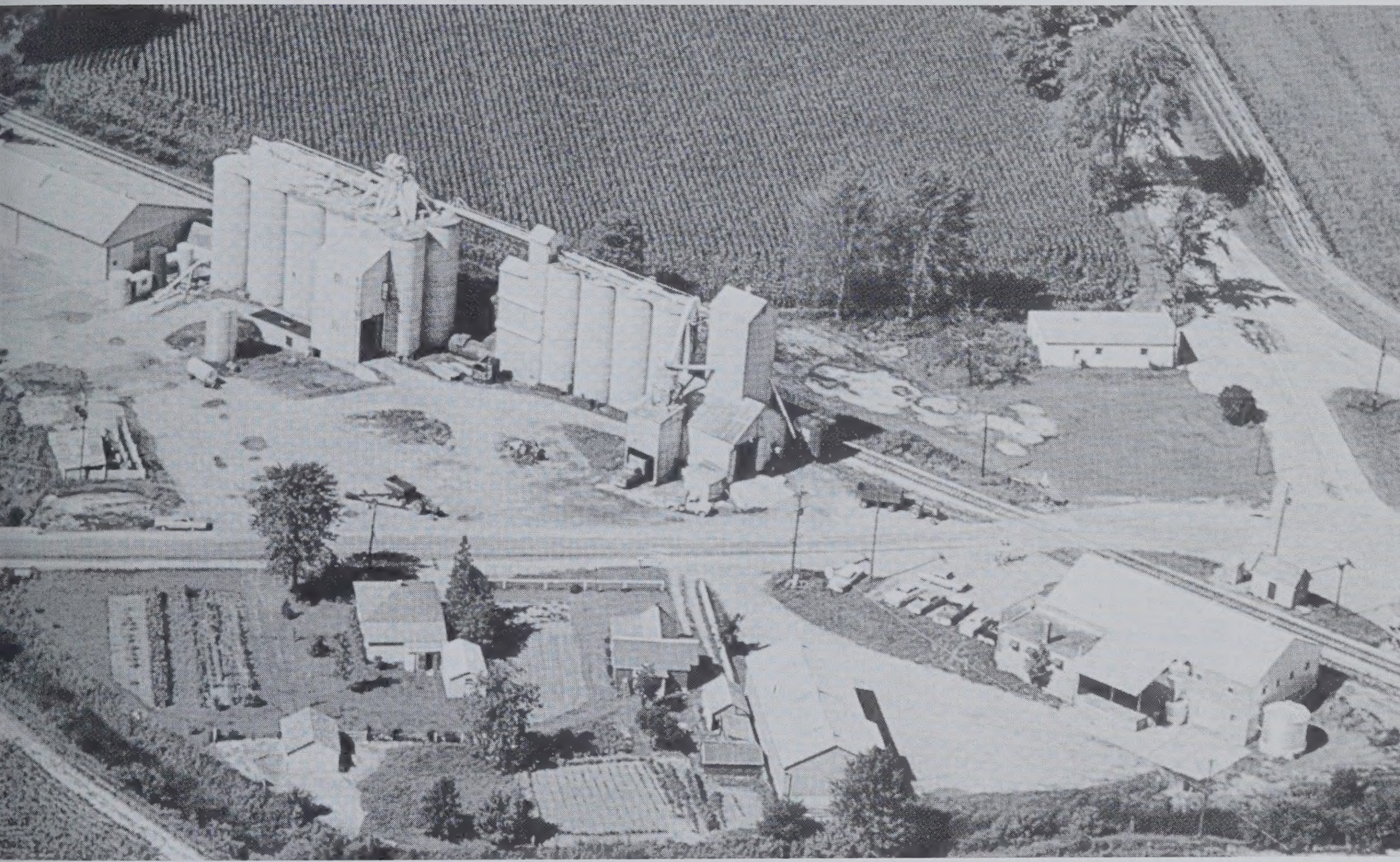
We recently completed an expansion of the mill for the State of Haiti from 3,500 cwt. per day to 5,000 cwt. per day to keep pace with the increasing demand for flour in this developing country.

NATIONAL FLOUR MILLS LIMITED—TRINIDAD:

During 1972, Maple Leaf became manager and part owner of National Flour Mills Limited which is controlled by the Government of Trinidad and Tobago.

Shown above is a perspective view of the mill after expansion from 3,500 cwt. per day capacity to 6,500 cwt. Plans for this expansion have been developed by Maple Leaf in association with Henry Simon Limited. It is anticipated the new mill will come into operation during the first half of 1974 and will be adequate to meet the flour needs of the Trinidad and Tobago market.

Commodities



GRAIN DIVISION

The above picture shows the Grain Division's recently acquired country elevator at Ennett, Ontario. We now have ten such facilities in Southwestern Ontario which serve as receiving and shipping points for corn and other Ontario grains and provide farm supply services.

VEGETABLE OIL DIVISION

The Oil Division exports a significant portion of its production. Shown at right is a vessel loading soymeal for shipment to Belfast, Ireland.

Main activities and products

Agriculture

Feed Division	Manufacture and sale of complete range of animal and poultry feeds under the Master Feeds label. Master Feed farm service centres.
Seed Division	Processing and sale of forage seeds, production and sale of lawn seed and hybrid seed corn.
Poultry Products Division	Hatching, growing and processing of poultry sold under Pinecrest label.

Foods

Grocery Products Division	Manufacture and sale of family flour and convenience foods under the following brand names—Monarch, Purity, Cream of the West and Jolly Miller. Convenience foods to the restaurant, fast food, hotel and institutional trade. Manufacture and sale of pet foods under the Master, Mutt 'n Jeff and à la cat brand names. Distributor of Kitty Litter.
Industrial Flour Division	Millers of flour and cereal products for bakeries, biscuit manufacturers, pasta trade and food processors in both domestic and export markets.
Overseas Operations	Management of La Minoterie D'Haiti, a flour mill owned by the State of Haiti. Management and part ownership of National Flour Mills Limited—Trinidad.

Commodities

Grain Division	Merchandiser of milling and feed grains, oilseeds, seed grains and fertilizer, terminal elevator operator, sales agent of The Canadian Wheat Board.
Vegetable Oil Division	Oilseed crusher, merchandiser of soybean and linseed oils and meals, industrial oil processor, and merchandiser of various imported edible vegetable oils.

Partly Owned Bakeries

Corporate Foods Limited	Manufacturers and distributors of fresh and frozen bakery products in Ontario and Quebec under the ToastMaster, Dempster's and Gainsborough Kitchens trade names.
Eastern Bakeries Limited	Manufacturers and distributors of bread, rolls, cake and sweet goods in the Maritime provinces under the Butter-Nut, Sunny Bee, Fun Buns and Country Kitchen trade names.
McGavin ToastMaster Limited	Manufacturers and distributors of bread, rolls, cake, sweet goods and frozen dough in the four western provinces under the ToastMaster, Mother Hubbard and Alpine trade names.